

Internet-based business models for management consultancy

Benjamin Antwi

Bachelor Thesis
Business Information Technology
November 2014



Business Information Technology

01.11.2014

| | |
|---|--|
| Author or authors Benjamin Antwi | Group or year of entry 2011 |
| Title of report Internet-Based Business Models for Management Consultancy | Number of report pages and attachment pages 55 |
| Teacher(s) or supervisor(s) Aarni Moisala | |
| <p>The purpose of this thesis was to take a closer look at new internet-based business models based on serious gaming on the web. The thesis was written from a general point of view so that even non-management people will also gain a level of understanding.</p> <p>The thesis was written by conducting a research on online business models as presented in articles, news and other online resources. Again, knowledge acquired from my supervisor who is a management consultant was featured in this thesis. Finally, the author's opinions were also captured.</p> <p>The thesis discusses various internet-based business models, what makes each of them peculiar, the strengths and weaknesses of each of them and where each can be used. It further discusses the product life cycle of Noble Mind Game (NMG); the reason for which this research is been conducted.</p> <p>The thesis concludes by recommending freemium business model as a model which may work for Noble Mind Game. The author further recommended a source of funding for the project.</p> | |
| Keywords Noble Mind Game, business model, portal, community, advertising, freemium, subscription, crowdfunding | |

Table of contents

| | | |
|-------|--|----|
| 1 | Introduction..... | 4 |
| 2 | BUSINESS MODEL FOR NOBEL MIND GAME (NMG) | 5 |
| 3 | What is a business model? | 6 |
| 3.1 | Value stream..... | 7 |
| 3.1.1 | Different Customer Segments: | 7 |
| 3.2 | Revenue stream | 8 |
| 3.2.1 | Selling of assets | 9 |
| 3.2.2 | Subscription..... | 9 |
| 3.2.3 | Renting and/or leasing | 9 |
| 3.2.4 | Giving for Free | 9 |
| 3.3 | Logistic stream..... | 10 |
| 3.3.1 | Reaching customers | 10 |
| 3.3.2 | Info-mediation | 10 |
| 3.3.3 | Meta-mediaries..... | 10 |
| 4 | Online Business Models..... | 11 |
| 4.1 | Portals | 11 |
| 4.1.1 | When businesses need portals | 12 |
| 4.1.2 | Features of a portal: | 12 |
| 4.1.3 | Types of portals | 12 |
| 4.2 | Auction model..... | 14 |
| 4.2.1 | Benefits of Online Auction..... | 17 |
| 4.2.2 | Risks of Auctions..... | 17 |
| 4.2.3 | How auction sites make profit..... | 18 |
| 4.3 | Community Model | 18 |
| 4.3.1 | Elements in Online Communities..... | 20 |
| 4.3.2 | Why do people join communities?..... | 20 |
| 4.3.3 | General communities | 20 |
| 4.3.4 | Practice communities | 21 |
| 4.3.5 | Interest communities | 21 |
| 4.3.6 | Affinity communities | 21 |

| | | |
|-------|---|----|
| 4.3.7 | Sponsored communities | 22 |
| 4.4 | Online Advertising | 22 |
| 4.4.1 | Publishers | 23 |
| 4.4.2 | Advertisers | 23 |
| 4.4.3 | Ad networks | 24 |
| 4.4.4 | Agencies | 24 |
| 4.5 | Affiliate model | 24 |
| 4.6 | Franchise model | 25 |
| 4.6.1 | Types of franchises | 25 |
| 4.7 | Freemium model | 26 |
| 4.8 | Subscription model | 28 |
| 4.8.1 | Advantages | 28 |
| 4.8.2 | Weaknesses | 28 |
| 5 | REVENUE GENERATING MODELS AND NMG | 29 |
| 5.1 | Auction model and NMG | 29 |
| 5.2 | Advertising model and NMG | 30 |
| 5.2.1 | Sponsorships | 31 |
| 5.2.2 | Banner | 31 |
| 5.2.3 | Pay Per Click (PPC) | 32 |
| 6 | A study of YouTube and Performance of Online Videos | 32 |
| 6.1 | Why YouTube became successful | 33 |
| 6.1.1 | Streaming media format | 33 |
| 6.1.2 | Flash videos | 33 |
| 6.1.3 | Embedding properties | 34 |
| 6.2 | Current state of online videos | 34 |
| 6.2.1 | The effect of video sharing websites | 37 |
| 7 | NMG product life cycle | 39 |
| 7.1 | Introduction | 39 |
| 7.1.1 | Challenges | 40 |
| 7.1.2 | Benefits: | 40 |
| 7.2 | Growth | 40 |
| 7.2.1 | Challenges | 41 |

| | | |
|-------|--|----|
| 7.2.2 | Benefits: | 41 |
| 7.3 | Maturity | 41 |
| 7.3.1 | Challenges..... | 42 |
| 7.3.2 | Benefits | 42 |
| 7.4 | Decline..... | 42 |
| 7.4.1 | Challenges..... | 42 |
| 7.4.2 | Benefits: | 43 |
| 8 | Proposed revenue model | 43 |
| 8.1 | Freemium model | 43 |
| 8.1.1 | Create a core product..... | 43 |
| 8.1.2 | Make a decision on the free version and don't change it..... | 44 |
| 8.1.3 | Consider the use cases | 44 |
| 8.1.4 | Trust your users and your game | 45 |
| 8.1.5 | Making freemium richer | 46 |
| 8.1.6 | Financial Analysis | 47 |
| 8.2 | Crowdfunding..... | 48 |
| 8.2.1 | Entrepreneurs | 49 |
| 8.2.2 | Funders | 50 |
| 8.2.3 | Crowdfunding platforms | 50 |
| 9 | References | 52 |

1 Introduction

An electronic business or e-.business as often called, is a term which describes a business entity which uses the internet as its medium of communication and operation instead of the traditional means. Every business, whether electronic or traditional, has a business model; it may be implicit or explicitly outlined. A business model is a term which describes how a business entity intends to create value and also deliver it within the short term, medium term or long term using its core activities and outputs. (Business Model, 2013.)

The purpose of this thesis is to give a general overview of different online business models and recommend a model which Nobel Mind Game (NMG) can adopt. The Noble Mind Game (NMG) is a serious game which is in development as at now. The game intends to use the internet as its mainstream medium of communication and delivery.

The thesis researches common online business models such as portals, e-advertising, virtual communities, auction, franchise, freemium and subscription. The thesis researches into when each of these models can be adopted for any business, identifies which kind of business suits a particular model, advantages and disadvantages of using a model. Furthermore, since NMG uses videos in its operation, the thesis researched into how YouTube became successful and the how people patronise online videos.

The thesis also discusses the business concept of NMG, its product life cycle. It begins by introducing NMG, business models, detailed description of the various models, and concludes by recommending a business model and means of fundraising for NMG.

I chose this topic because it was proposed by my mentor who also supervised this work. In the opinion of the writer, this thesis will be very useful to NMG if adopted.

2 BUSINESS MODEL FOR NOBEL MIND GAME (NMG)

The invasion of computers over the past few decades and computer gaming have transformed how people spend their leisure hours. Playing computer games at leisure hours has replaced traditional activities people engaged in during leisure times. Currently, there is an assertion that games could be used for studying and learning purposes. (Rajput 2014.)

For most people, from elementary school through to university level, are tuned on and highly motivated when they get the opportunity to solve concrete real life problems by engaging in series of creative and disruptive tasks.

It is with this background that the Nobel Mind Game has been developed. In essence, it is a serious game; a game designed to give a virtual experience while providing a learning environment other than just a mere entertainment. The game allows millions of people to give their utmost in an inspirational and positive atmosphere with their smart phones and computer videos.

The player of NMG identifies and analyses a problem presented by already made video clips using different modalities. The player is required to add a missing piece of a video into some ready-made clips. Adding may be achieved either by filming and editing own clips or combining ready-made pieces in a new way. The player uses real life experience and past or present academic knowledge to connect the video clips. He or she may incorporate emotions and feelings into it in order to express his or her message. The game gets more challenging as the number of pieces increase and the cognitive levels get higher.

The two ready-made clips are the Cognitive and Emotional clips. Cognitive clip introduces the theme to be followed in that particular game while the emotional clip connects the cognitive clip into an emotional theme. As with video or computer games, a game should have a specific goal which the designer has already specified. The goal of the designer is that the player sends a third video clip which will connect the two clips

already provided. Finally, a short description will be required on the player's clip to explain why and how it was produced.

The NMG is a video or computer game and therefore can be played on a computer or on any hand-held (mobile) device. Unlike other video games which require more than a one player, a single player can easily play the NMG. It's a digital product and therefore can be delivered to the customer online. Customers will be required to download the application onto their devices.

3 What is a business model?

Business model as a term has been discussed severally in many writings yet highly misunderstood. Most people have failed to explain it by erroneously referring to components of a model. Osterwalder, Pigneur and Tucci (2005, 5) in their article explaining business models gave a clearer definition and description of the term. They stated that:

A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences. (Osterwalder et al 2005, 5.)

However, a recent definition was again given in Osterwalder 2010 that "A business model describes the rationale of how an organization creates, delivers and captures value." (Osterwalder & Pigneur 2010, 14.)

A business model comprises three main components which are very essential to the business. These components are value stream, revenue stream and logistic stream. Value stream refers to the value the organization offers to its customers and its business partners. The revenue stream also refers to the how the organization intends to generate revenue. Lastly, the logistic stream refers to how delivery mode and related supply chain issues. (Mahadevan 2000, 59.)

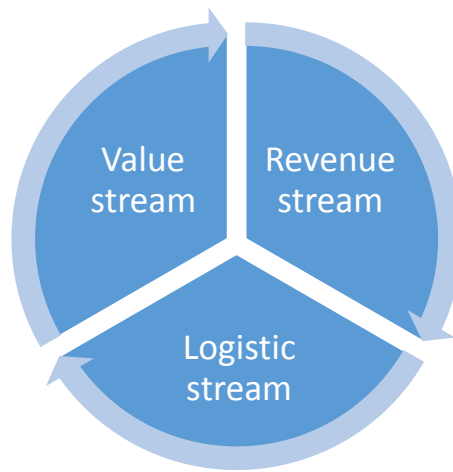


Figure 1: Components of a business model.

3.1 Value stream

The first issue to consider is the target customer. The value stream identifies various customers and outlines how the business entity satisfies its customers' needs. Activities of a business organization concentrates on their customers which may be an organization or a group of people. In order to ensure better customer satisfaction, most business entities group customers into different segments. The grouping is based on common factors which identify them such as needs, behaviours, etc. A segment may be small or large and the business entity may decide to serve some segments and ignore others. (Pearson 2004, 62.)

3.1.1 Different Customer Segments:

- a. Entire market: This implies that there is no distinction between the different customer segments. The business entity therefore focuses on the entire market and advances all resources to meet the needs of this large group.
- b. Niche Market: This means that the business entity focuses all of its resources on serving a special group of customers. This ignores all other customers outside of this group and concentrates value proposition on only this group.

- c. Segments: This serves an entire large market but groups them into smaller groups by identifying their slightly distinct needs and varying value proposition in order to satisfy each segment. This is common within the banking sector.
- d. Diverse Market: Means that the business serves two or more customer segments which are unrelated at all.

After identifying the customer, then consideration should be given to the product or service being offered to these identified customers. The value customers receive from the service or product is their reason for choosing a company over another. The service or product should satisfy a need the customer has. Other times, the product can even satisfy a need which the customer is not aware of. The product should prove to be better than it's like on the market in order to make it highly competitive.

Other values the product can also give the customer are cost reduction, risk reduction, accessibility and usability. The product should be cost effective with minimal risks. In the digital industry, accessibility is a big issue. The digital product should download within the shortest possible time and the user interface should be simple and friendly. (Osterwalder & Pigneur 2010, 21.)

3.2 Revenue stream

The revenue stream refers to propositions for generating revenue over long term in a sustainable manner. Besides the traditional revenue streams, the internet has also brought about new revenue streams. In general, a model can have two main revenue streams:

1. One- time payments made by customers
2. Continuous payments received from recurring payments from customers or from after sales services.

There are several revenue streams but a few of them are discussed below.

3.2.1 Selling of assets

Revenue can be derived from selling properties to others. Online businesses such Amazon and others sell variety of products to customers. Car manufacturing companies sells cars to customers, estate companies' sell houses and so on. (Osterwalder & Pigneur 2010, 31.)

3.2.2 Subscription

Subscription involves selling a service to customers where customers do not make one-time payments rather paying fixed amounts over a period of time. Subscriptions maybe monthly, quarterly, or even yearly. An anti-virus software company may allow customers to make monthly payments in order to keep using the service. Members of a gym may be required to make monthly payments to keep their memberships. (Osterwalder & Pigneur 2010, 31.)

3.2.3 Renting and/or leasing

An asset, property or a service may be leased or rented to a customer temporarily for an agreed period of time. Normally, a contract will be signed to seal the rent or lease. To the lender, this stream allows recurring revenue while the renter has the advantage of using the property for a fixed term and not perpetually. If in future there is a change of mind, the lesser or lender may not renew the contract when the time is due. (Osterwalder & Pigneur 2010, 31.)

3.2.4 Giving for Free

The idea behind this stream is to sacrifice today's revenue in hope of higher ones tomorrow. As in the case of Adobe Systems, they offered Adobe Acrobat Reader for free. As many users got to use it in reading their documents, they build a large customer base. Most of these begun to also create their own pdf files and ended up paying for full version of the product. Skype, LinkedIn, Facebook, Dropbox and others have used this stream. (Mahadevan 2000, 64.)

3.3 Logistic stream

Logistic stream comprises various processes involved in the supply chain. Within the online world, there are three main streams; dis-intermediation, info-mediation and meta-mediation. (Mahadevan 2000, 65.)

3.3.1 Reaching customers

Through dis-intermediation, the internet has been able to shorten online supply chain. The role of middlemen has been totally cut out and companies deal directly with their customers. The advantages dis-intermediation is that cost of transacting business has reduced and improvement in after-sales service. These improvements usually result in reduction in price which may also result in higher sales turnover. Amazon.com and EBay have been successful through this stream. (Mahadevan 2000, 65.)

3.3.2 Info-mediation

The internet contains so much information that a single person cannot handle. It would tedious for individuals seeking information online, if not for companies like Google who have organized and categorised information online. Info-mediation means organizing information and connecting them in a way such that users get the exact information they need. In other words, storing and releasing meta-information. Those involved in such activities are called infomediaries. Common examples of infomediaries are portals. (Mahadevan 2000, 65-66.)

3.3.3 Meta-mediaries

Meta-mediation does not only make a collection of vendors and their products but also provide services which aid transactions. Meta-mediation in some markets, especially where within business-to-business segments, where the supply chain involves lot of divisions and processes resulting in higher costs, give additional value to buyers, intermediaries and sellers. (Mahadevan 2000, 66.)

4 Online Business Models

Business operations have improved by the introduction of the internet and most business entities have discovered new ways of generating revenue. There are several internet-based business models which have been successful. Internet-based business models are business models which use the internet for their operations and communications. Marketing and selling of products and/or services are all done online. There are several of these models but for the sake of this thesis, few of them are discussed. (Zorayda 2003.)

4.1 Portals

Portal originates from the word “Port”, which refers a point of entry into a country. (WhatIs 2014). Hence, a portal is a point of entry into a web system. They are one of the most frequently visited sites on the web. This business model was born with the internet and its users have increasingly grown over the years.

A portal aids users in finding what they are looking for on the web. Most portals for example Yahoo, AltaVista, Excite, etc. initially begun as search engines. Users found links to useful information and resources via these portals. Nowadays, apart from providing this basic service, portals also entertainment, weather reports, news, emails, chats, quality information and educational resources on variety of topics. Instead of being a gateway to other links, portals are now online destinations. Examples of web portals are Yahoo, MSN, AOL, etc. (Winkler 2014.)

Within an organization, portals also play important roles including displaying the organization’s news and announcements to employees, connecting employees to human resource departments and the like. These are known as enterprise portals. They also display live feeds from internationally recognized bodies which are outside the organization. (Pearson 2011, 752.)

4.1.1 When businesses need portals

The roles played by the web in today's business world cannot be overlooked. Most businesses use the web as a channel to provide services and disseminate information to its users. Considering the diversity of users coupled with the different services provided, all the users are grouped according to their interests and functions. This results in the segregation of resources being provided to match the user groups. In the end, vast information will be filtered and relevant information sent to users based on their inputs. (Ho 2003.)

4.1.2 Features of a portal:

A portal should have the under listed features:

- It should be able to present information that a particular user needs with respect to his or her inputs given.
- Permit users to select information related to his or her interests.
- Convey information from user's view point.
- A simple log in system which enables just a single log-in in order to access different information and other services.
- A single sign-in should be enough to access variety of information, services and resources.
- The portal should offer a user-friendly interface. (Ho 2003.)

4.1.3 Types of portals

Generalized portals: Generalized portals attract very high traffic because of the huge number of users who visit it daily. They offer generic information and provide diverse services. Examples of generalized portals are AOL and MSN. They offer services such as search engines, email services, chats, community building and several others. **Personalized portals:** Personalization of a specialized portal to satisfy specific user groups. With this feature, users are able to personalise the interface. (Griffin 2013.)

Horizontal Portals: Horizontals portals also known as affinity or vertical portals give information to different categories of visitors or users. These portals serve users with common interests. However, most of these portals now also have features found in generalized portals. These portals make revenue through advertisements and other services on which commission are paid. These portals provide contents like sports, finance, auctions, automobiles etc. (Griffin 2013.)

Yahoo! Is an example of a leading horizontal portal. With Yahoo!, users are able to shop because it links them to several online shops. Users add item of interest to their Yahoo! shopping carts and make purchases through Yahoo! instead of moving from one shop to the other. To use a Yahoo! Shopping portal, the user only click Shopping on Yahoo!'s homepage. A page similar to what is in Figure 1 will be displayed on screen and users can freely search for an item or product from any of the categories. To make a purchase requires a simple registration with Yahoo!. Just a click on Sign-In link, creating a username and giving a password. Yahoo! provides other options apart from Shopping. Recently, their partnership with Google.com has also brought about lots of options for its users. (Portals 2014, 760.)

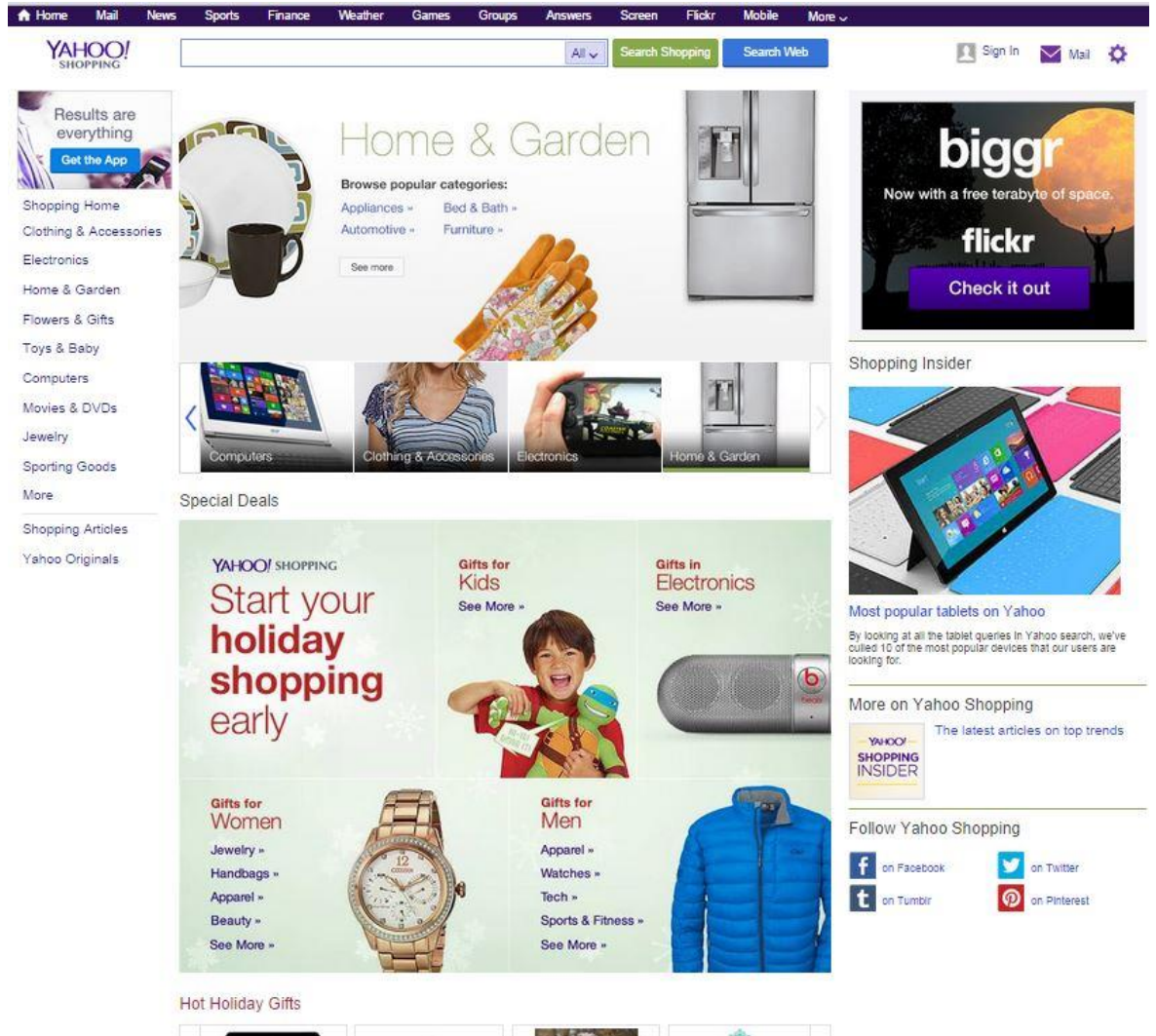


Figure 2: Yahoo! shopping (Yahoo.com).

4.2 Auction model

Auction is a consumer to consumer (C2C) business model with eBay.com as one of the market leaders. In this model, buying and selling of goods and services are done through placing of bids and sales are made to the highest bidder. The prices vary and there is a strong competition among participants who get involved. Auction is a type of dynamic pricing and depending on the demand from customers and availability of product from supplier, the prices vary. There are several online auction sites, some sell only specialized products while others provide general platform where any product can be sold. (Nikov 2012.)

In the auction business model, markets use a technique called dynamic pricing where sellers vary their prices by considering two main factors; firstly, their willingness to sell the product or service and secondly, the value placed by customers on the product or service. Similarly, customers make variations in their offers depending on how urgent they need the product and their understanding of the seller's willingness to sell the product. Therefore if a customer urgently needs a product in a dynamic pricing market, then he or she should be willing to make a higher offer and also pay for it. (Pinker 2003.)

Traditional markets on the other hand, generally use fixed pricing. This means that same prices are maintained for everyone at any place. Until the ninth century when fixed pricing was introduced with the advancements of the mass national market concept, dynamic pricing was practised. The actual price was realised through bargains between seller (merchant) and customer. Dynamic pricing has resurfaced due to the advent of computers and the internet. Now, it can be done globally and at a much reduced cost. (Pearson 2011, 728.)

Online dynamic pricing may be in different forms including triggered prices, personalised prices, bundles, utilization prices etc. In trigger pricing, prices change due to customer's location and this is very popular in mobile commerce. In utilization pricing, prices are varied based on how the product has been utilized. Based on the amount of value the customer places on a product, prices are adjusted in personalized pricing. Bundling is whereby products in low demand are bundled for free in digital selling, with the intention of increasing revenue. (Pearson 2011, 728.)

Auctions, as stated earlier, are employed largely in customer-to-customer auctions. The auction house acts as middle-men or intermediaries and provides only a platform where customers and sellers can interact.

Table 1: some leading online auction sites. (Pearson 2011, 732.)

| LEADING ONLINE AUCTION SITES | |
|------------------------------|---|
| Generalised | |
| eBay.com | The world leader in online auctions |
| amazon.com | General consumer products |
| shopping.yahoo.com | General consumer products |
| shopping.lycos.com/all | Wide range of products from different merchants |
| www.ubid.com | General consumer products |
| bid4assets.com | Liquidations |
| liquidations.com | Liquidations |
| aaands.com | General consumer products and specialties |
| Specialized | |
| www.cnet.com/deals | Electronics and computer related |
| www.autoscout24.com | Cars |
| philatelicphantasies.com | Stamps |
| www.stacksbowers.com/ | Coins |
| Baseball-cards.com | Baseball and other sport cards |

4.2.1 Benefits of Online Auction

- **Liquidity:** Online auctions provide a global market where sellers and buyers can find each other, no matter their location around the world.
- **Price discovery:** In situations where prices of products depend on demand and supply, customers and merchants are able to develop prices where there is difficulty in assessing the products.
- **Transparency in pricing:** It is almost impossible for sellers to 'over-charge' some customers in online auctions since everyone sees asking prices as well as bidding prices
- **Market Efficiency:** Customers are able to access a wide range of products to find what they really want. They also get good deals through give-away prices.
- **Lower transaction costs:** Online auctions are transacted in real time and also come along with low transaction costs compared with traditional auctions.
- **No inventories and warehouses:** The online auction websites do not need any warehouse to store good. There is no need for inventories, shipping and logistics as well. The sellers ships products to their customers directly without any involvement of the auction website. (Pinker 2003.)

4.2.2 Risks of Auctions

- Auctions also come with its own risks and some of them are discussed below:
- **Delay in consumption:** Buying the product from a physical shop or ordering via a catalog is much faster than waiting for an online auction, which may go on for a while, perhaps some days or weeks. Even after then auction, shipping and delivery will take some time.
- **Monitoring of costs:** A buyer must constantly keep track and monitor the bids in an auction.

- Cost of equipment: To have access to online auctions require a computer, internet and also learning to use an operating system. This can result in extra cost. (Nikov 2012.)

Most auction sites have taken into consideration these risks and have taken measure to mitigate them. In an attempt to reduce trust issues, most auction sites user ratings and reviews. These allow previous customers to give feedback on their experience with the said merchant. In attempt by eBay to reduce monitoring and waiting time, the “Buy It Now” button has been introduced to allow buyers purchase products instantly and paying premium prices. It is important to note that eBay and Amazon have so dominated the online auction business to the point that smaller auction sites are barely recognised and therefore make very small profits. (Nikov 2012.)

4.2.3 How auction sites make profit

- Listing fees: Every seller is charged a listing fee in order to display a product in an auction list
- Valuation fees: This is some sort of commission which a seller pays to the auction site after a sale has been made.
- Promotion or placement fees: If a seller wants to promote his or her product so it becomes more visible to buyers, this special fee is charged.
- Advertisements: Revenues made from adverts run on its website. (Pinker 2003.)

4.3 Community Model

The idea of building a community has been with the internet ever since its inception. Originally, it was designed scientists from different computer science institutional departments within the United States of America. It was intended to be a community where these scientists can share knowledge, information and data among themselves. With time, scientists from other backgrounds also formed smaller communities with same intents.

There have been a lot of researches on online communities within the last few years. Smith and Kollock (1999 in Gloersen I, Ip P. 2007) points out that the concept on online communities became very popular in 1993. There is no accepted definition for online communities because the term is understood differently. Online communities are sometimes referred to as virtual communities. These terms may be used in place of one another. A community may be defined as:

“A community refers to a social network with a high degree of interaction and with a common purpose, meaning the nodes in the network have something specific in common. This can be a task, an interest or a purpose.” (Nag, 2006 in Gloersen I, Ip P. 2007.)

A community possesses two main elements per the definition above; interaction and common purpose. Traditionally, these were done in person (face-to-face). With the emergence of technology, these interactions are conducted over the internet within real time regardless of geographical locations, this is widely known as online communities. According to Preece (2000 in Gloersen I, Ip P. 2007.), “social activity that involves groups of people interacting online. Such communities may be long or short term, large or small, national or international, and completely or only partial virtual.”

Also according to Schubert:

“Virtual communities describe the union between individuals or organizations who share common values and interests using electronic media to communicate within a shared semantic space on a regular basis.” (Schubert, 1999 in Gloersen I, Ip P. 2007.)

From the definitions above, the same interactions conducted in the traditional way have been moved onto an electronic medium. However there is a debate on advantages and disadvantages of traditional communities and online communities. Those who argue against online communities say that virtual communities prevent physical interactions between people, weakens social bonds and destroys family ties. On the other hand, those who argue for also say that online communities build work groups, provides 24/7 availability, lowers communication costs and that it's a better replacement for traditional communities. (Gloersen I, Ip P. 2007.)

4.3.1 Elements in Online Communities

Online communities possess four main elements which distinguish it from other online resources. First is the people who engage and interact among themselves. The second element is that these people share some common interests or have some needs. These needs or interests become the basis for forming the community. Thirdly, there are outlined policies which guide the various interactions within the community. Finally, a computer system needed to aid the various interactions. (Leimeister 2004.)

4.3.2 Why do people join communities?

There are four reasons according to Hagel and Armstrong. Firstly, people join communities because they have some interests. The internet allows people to share their interests with the whole world no matter how small it may be. Secondly, people seek for an opportunity to share their experiences with others who have had similar experiences and build relationships with them over time. Thirdly, people share fantasy by trying to be people they are not in real life. Finally, people join communities to effect transactions. Virtual communities maybe of different kinds. Discussed below are some classifications. (Ridings & Gefen 2004.)

4.3.3 General communities

These kind of communities permits its audience to contribute on general issues. The topic or issue being discussed may be a broad one with several groups of like-minded people discussing different aspects of it. Members can freely choose which group to join based on their interests. General groups aim at attracting as many people as possible to form different discussion groups. The general community business model has seen some changes. Initially, such communities were not commercial, they were only for discussing topics and barnstorming but currently, most of them have been bought by larger portal sites. For example, Yahoo bought GeoCities and Salon Group purchased The Well. These larger commercial sites are interested in the larger audience of these communities and seek to attract them to the various commercial activities on

their portals. General communities generate revenue through adverts and sponsorship deals. (Pearson 2011, 766.)

4.3.4 Practice communities

Practice communities allows its audience to contribute to focused discussions and share knowledge in areas of shared practice. For example, linux.org is a community for programmers who develop codes Linux operating system. The developers offer help to other developers who may have problems with some codes and share their results freely in order to improve the Linux system. There are similar communities for other professionals like photographers, nurses, medical doctors, artists etc. Revenue is generated by practice communities through subscriptions, adverts, commissions on sales made, etc. (Pearson 2011, 767.)

4.3.5 Interest communities

These also allow focused discussions but differs from practice communities in the sense that discussions are held in groups which have common interest in specific subjects like football, cars, boats, health, etc. The audience in this case is quite small and much targeted. Revenue is generated through adverts and sponsorships. Examples of such communities are military.com and fool.com. (Pearson 2011, 767.)

4.3.6 Affinity communities

Also provides audience with focused discussion but also allows interactions between people of same affinity. Affinity means people identify themselves on grounds such as religious beliefs, ethnicity, political beliefs, sexual orientations, gender, etc. Sites like iVillage, Oxygen are designed for women to discuss various issues ranging from cosmetics, beauty, diet, books, babies, home and several others. Revenue is generated from subscriptions, running adverts, sponsorships and alliances. (Pearson 2011, 768.)

4.3.7 Sponsored communities

This type of online communities are created by organizations or governments in order to pursue their commercial interests. Countries may use this medium to send information to its citizenry. Business entities may also use this means to extent particular information to as many people as possible. In most cases, these communities are not targeted to be sales points but rather a place to begin dialogue with its customers, promote new brands and products, provide after sale service, and obtain feedback on user experiences which might contribute to improvement of service or production and several other reasons. (Pearson 2011, 768.)

4.4 Online Advertising

Online advertising unlike other models has struggled to breakthrough into the online business venture. By the time the internet became accessible to the ordinary consumers and not limited to academia, there were uncertainties about its viability as a commercial entity. Most of the earlier online advertisements almost failed due to several reasons but greatly because most of the advertisers did not fully understand this concept and thought of it as if they were dealing with the print media or television media.

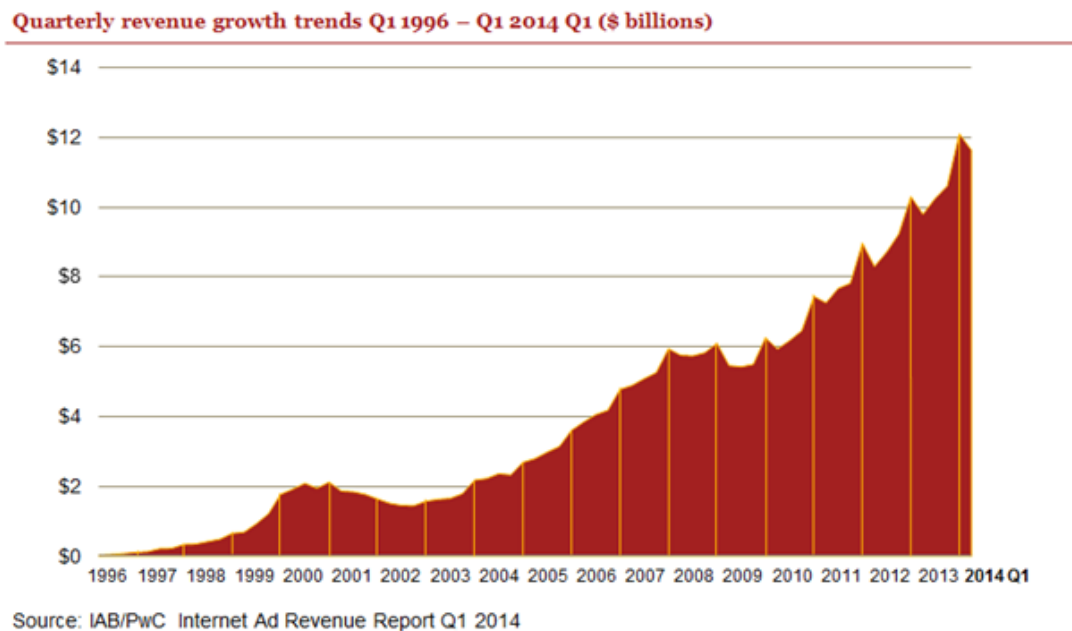


Figure 3: Quarterly revenue growth trends Q1 1996 – Q1 2014 (pwc 2014.)

Initially there were no tracking technologies therefore advertisers only had to pay for a small banner advert they place on websites and the space their adverts occupy on websites. In order for advertisers to get an idea of the number of people who saw their adverts, they depended on statistics of website's visitors. In most cases, the size of the advert or banner and the number of visitors expected to see the advert determined how much the advertiser would be charged.

The introduction of ad serving software in the mid 90's brought about some innovations. This allowed several banners to be rotated with the same space on a webpage. It became possible to track impressions of an advert with this innovation. The software also allowed tracking of click through and specify start and end dates of adverts. Advertisers were able to track visitors who clicked on their adverts. This innovation also formed basis for developing today's tracking technologies and ad servers. There are diverse roles in online advertising. Salient ones are discussed below: (Adjuggler 2014, 3-4.)

4.4.1 Publishers

Publishers are owners of websites which give sections, spots or pages for advertisements to be run. Most of the time, they also are involved in managing the adverts on their websites or pages. An advertiser will convey his or her intents on how the advert should be run to a publisher, the publisher will then ensure that it is done just as requested and generate the needed traffic. It is the publisher's responsibility to ensure proper optimisation, embarking on campaigns so as to realise the advertiser's goals. (Adjuggler 2014, 10.)

4.4.2 Advertisers

Online advertising depends on advertisers and without them advertising will cease to exist despite all the available technology. They bring the advert and tell what type of advertising they need, where, duration and how they want the advert to run and how much investment they can commit to it. The advertiser also checks that the advert meets their goals and that it is being run according to the agreed terms by studying the

reports. Whether the advertising campaign becomes a success or fails, it's the advertiser who can determine. At the end of the contract, the advertiser will determine whether to renew or cancel it. (Adjuggler 2014, 9.)

4.4.3 Ad networks

The role of ad networks is to solve problems faced by publishers and advertisers. Due to time constraints, most advertisers are not able to seek out a publisher out of the thousands available to run their advertising campaigns. Similarly, most publishers cannot afford to handle advertising sales. A network normally builds relationships with publishers and advertisers and pairs them for business purposes as and when necessary. The network ensures both run smoothly; the advert shows only on appropriate websites, advertiser's investment does not go waste by running advert on ineffective websites and that each side is happy. The ad network further ensure that the adverts run on publisher's website is of much value so that publisher does not end up wasting the web space. (Adjuggler 2014, 11.)

4.4.4 Agencies

Agencies work with advertisers and assist them in designing the adverts, determining the kind of advertising strategy to be adopted, buys the advertising web space on behalf of the advertiser. (Adjuggler 2014, 11.)

4.5 Affiliate model

This is an online business model where sellers are paid commission by the business entities, for which they performed an activity. The seller may perform one or several activities including selling a product, attracting a customer to visit a website or click an advert, fill an online form, etc. This model requires a business entity which has a product or service to sell, and a middleman or publisher who brings in the sales. These two entities work as partners and make profits.

The business process starts when a business the entity which has a product or service to sell decides to adapt this model to boost its sales. This partner will be responsible

for paying commissions on each activity. The affiliate program can be run either in-house or outsourced to an affiliate service.

The other party involved in an affiliate model is a publisher. The publisher owns a website and updates his website with banners and adverts of the affiliate after subscribing to the affiliate program. Depending on the terms of the program, publisher will optimize his website to get visitors to like the banner, click the advert or visit a webpage of the business entity.

The publisher gets paid through several modes of payments including pay-per-sale (PPS), pay-per-lead (PPL), pay-per-impression (PPI), or pay-per-click (PPC). PPS means the publisher gets paid when a customer makes a purchase while in PPL, the customer fills a form. In PPI, publisher gets paid when a customer visits a webpage. Finally, payment is made when customer clicks a link in PPC.

At the end of it all, the advertiser and publisher all make profit. The publisher is paid commission and the advertiser makes some sales or get new contacts. (wiseGeek 2014.)

4.6 Franchise model

A franchise is a business model in which a party grants the rights to another party to perform particular actions using a certain trade mark, within some agreed terms. The party granting the right is known as the franchisor while the party at the receiving end is called franchisee. The agreed terms may specify that the franchisee will work in accordance with a specific pattern within a location. A franchise license will be given to the franchisee to use the franchisor's trademark, software, signage, patents, brand names, copyrights, logos, interiors, etc. (Franchise 2014a.)

4.6.1 Types of franchises

Distributorship: when a franchisee is given rights to sell the franchisor's products.

Trademark: when a franchisee is issued the license to use franchisor's trademark and/or permitted to use franchisor's brand in their business operations.

Business format: this grants franchisee the right to produce goods and services in accordance with franchisor's business practices and quality standards. Also franchisee can sell products of franchisor. An amount of money known as franchise fee is also paid upfront to the franchisor. Besides that, some royalties may also be paid over time. This enables to franchisee to bring on board products and services with excellent quality.

The fact that franchised businesses are able to use to use franchisor's brand name, logos, trademarks, operational formats, business practices, uniforms, site decorations, colors, copyrights and others gives franchised business normally have advantages over their competitors who are not franchised. They improve their customer service regularly by following the franchisor company's quality standards and this helps them in maintaining customers and attracting others as well. Finally, it has been shown by research that franchisee start-up's succeed more often than no franchised start-ups.

(Franchise 2014b.)

4.7 Freemium model

Freemium is very popular in online business in recent times. It is a proven e-business model for games, content-focused apps and entertainment. Freemium is a term coined from two words, free and premium. It signifies a business model in which the core products of the business is/are given to majority of users for free while selling the premium services to the minority of its users. (Rytis 2011.)

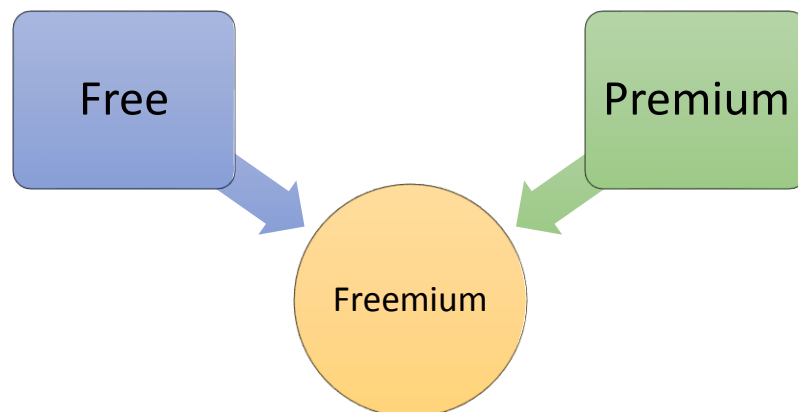


Figure 4: Image representation of freemium model.

Some famous examples of freemium model are Skype and Dropbox. Skype is a VoIP service which offers free audio and video calls from computer to computer freely while dropbox allows uploading of files and sharing them from computer to computer for free. In both products, premium services can only be accessed by paying for those services. (Rytis 2011.)

Freemium is very different from free trial model. With free trial model, users are permitted to use product for period of time which maybe a month, two or three months, after which some fees will be charged for continuous usage. With the freemium model the product is available always for free, users have every opportunity to use and experience the service or product and there is no limited time of usage. The premium part only gives added services to the same platform. (Froberg 2014.)

For freemium model to be effective it is very important to identify those customers who will make payments for the product and those who will use it for free. This will only be achieved if customers are properly segmented. Segmenting wrongly can result in a situation where the company will offer products freely to customers who may be willing to pay for them and also attempt to sell products to those who may never show interest in making payments for the product.

The chosen delivery channel should also be considered carefully in the freemium model. Knowing that some customers will use the product freely forever, the channel chosen should be very cheap especially to the free users. A good suggestion may be the use of automation when it comes to relationships with free users.

A properly automated channel will surely guarantee that free users will stay for long. The resultant will be lower operational cost and that's essential for freemium model to succeed. The costs must be averagely low for all users so that giving the product for free will be reasonable. (Bekkelund 2011.)

4.8 Subscription model

Subscription model is very common within the digital market. In this model, the business entity generates revenue by offering a product or service such that customers pay regularly a certain amount of charge. These charges are flat rates which are normally paid daily, weekly, monthly or annually.

A customer requires an online payment system such as credit card or the like to be able to subscribe to this model. The subscription system is set up automatically so the customer doesn't have to worry about paying any online transactional charges. Cancelling a subscription is relatively easy and handled within real time. (Noren 2013.)

4.8.1 Advantages

This model has the advantage that customers who do not have enough money to make an initial high purchase to also pay have access to the product by paying low subscription charges. When the prices are reasonable, this model yield very good results. Not complex when compared with other models as owners will only have to manage few pricing tiers. This model keeps the providers on their toes because in the effort to retain customers, they must constantly improve their services and introduce new innovative products. (Noren 2013.)

4.8.2 Weaknesses

The recurring payments can be irritating to some customers but weighing the positive and negatives, most customers prefer the subscription model instead of paying a huge sum upfront for the same service. The fact that providers should continually release new products in order to retain customers brings a huge burden on providers. (Noren 2013.)

5 REVENUE GENERATING MODELS AND NMG

Revenue generating model describes how a business entity intends to generate revenue. Make profits and make high returns on its invested capital. The revenue model may also refer to business model hence may be used interchangeably. The objective of any business entity is to make lots of profits and receive high returns on its investments. Several business models have been discussed earlier, in the following pages, I will discuss how some of these models can be used to generate revenue, what makes the model successful and how NMG can apply any of these revenue generating models. I will also discuss if NMG business concept will work with these models.

5.1 Auction model and NMG

The auction business model is very popular model yet it suits only a certain type of businesses. There are different situations which need to be considered before opting for the auction business model. In the previous chapters, I discussed the auction model from the point of view of a customer. However, I will be discussing the auction model in the business point of view.

The intention of any business entity is to make revenue, hence it adopts a business model which will aid this. In that regard, an auction model if adopted should enhance the revenue fortunes of the venture. There are therefore some considerations which need to be made before adopting this model since it may not suit every business.

- It is important to consider the kind of product or service the business entity is offering. Online auctions is perfect for products or services which are unique and are difficult in determining their prices. Perhaps, the company may even be struggling in finding market for those products.
- The current trend of the auction market shows that most business entities auction products which are almost at the end of the product life cycle. Again, most of these products are expected to do well in dynamic pricing market than in the fixed pricing markets. It must be said though that this scenario is expected to change pretty soon so that even products at the beginning of the product life

cycle will also fare well on the dynamic price market. It can be said from above that products which are well known by buyers will perform better on auction market. The success of an auction is dependent on the number of buyers available and for a new product it is always a challenge.

- Another key issue to consider in auctioning is the initial price. In order to motivate sellers to bid in an auction, research has revealed that an initial low price really counts. Furthermore, the bid increment should also be kept low. High bidder turnout is almost for sure under this circumstance because they get the feel that by topping up their initial offers with little amounts, they may win the auction. Therefore a new business with a new product which needs to make profits to keep the business running might not fare well if it does this way. (Pearson 2011, 744-746.)

In the author's opinion, NMG is an entirely new product and concept. Since it's new, fixing a definite price is quite challenging. There is none like it on the market now so with reference to its uniqueness it suits the auction market. Notwithstanding, it's a product at the beginning of the product life cycle. Research shows that such products which are not very popular do not do well currently on the auction market. Again, most people do not know about this product so it will be difficult to attract sellers to place bids on it. Again, the entire concept of NMG is such that people contribute to it instead of receiving something tangible at the end of it. In conclusion, with the factors already given, the auction model would not be the best model for NMG.

5.2 Advertising model and NMG

Advertising model may be of different types and each type has its own advantages, strengths and weaknesses. The kind of product which the business entity is selling determines the type of advertising model which will be used.

NMG in an effort to generate revenue, can sell out advertisement spaces to interested advertisers. This may be on NMG's website or on its application. There are different types advertising model which may be used. A few of them are discussed below:

5.2.1 Sponsorships

In the sponsorship type of advertising, as the name implies, the adviser will provide sponsorship for a whole, page or a section of a website. The sponsorship will generally be for a specific time period. This type of advertisement is perfect when a new product is being introduced to the market. Visitors of such a website will constantly see this particular advert since it will boldly be displayed constantly without any rotations with several other adverts. In this regard, NMG may consider giving a full page on its website or a section of its website for sponsorship. (Adjuggler 2014, 7.)

Advantage: The key advantage of using this advertisement type is that the advertiser's message will only be displayed. The target audience will only see that advert as long as they remain on that website and the message is likely to sink deep in their minds.

Disadvantage: The primary weakness of this type of advertisement is that there is no guarantee that the advert will generate high traffic. Also, one advert will occupy lots of space which can be sold to other several advertisers. (Adjuggler 2014, 7.)

5.2.2 Banner

This type of advertising is simple and basic. An advertisement is run for an agreed period of time for which an advertiser makes payment. Though this type has some similarities as sponsorship, the advertiser pays for the number of impressions. The banner of the advertiser may run on a certain spots of the NMG website. The advertisers may be given enticement packages, for example, a Gold, silver or bronze. The advertisement will then be run based on the accepted package. A Gold advertiser will receive higher impressions and will also be charged higher rates.

Advantage: This type is very simple and the advertiser knows the number of impressions they have bought, the time duration the advert will run and the specific place on the webpage the advert will be run.

Disadvantage: This type stands the risk that the impressions may not be very effective. Also due to its simplicity, the message of advertiser may not be fully conveyed to target customers. The advertisement can easily be ignored unlike the sponsorship. (Adjuggler 2014, 7-8)

5.2.3 Pay Per Click (PPC)

This type of advertising is used mostly with search engines. As the name implies, for every click on the advert, the advertiser gets paid. These adverts normally pop up with search results and text lines.

Advantages: the key advantage this method has is that the payments have to be made by advertiser only on actual clicks made on the advert and not on waste money on paying for many impressions which may never produce any results. On the publisher's side, they make revenue without having to do any significant amount of work.

Disadvantages: This kind of advertising only yields results to the publisher if the advert is clicked on and it's not profitable if the visitor ignores it. It will only waste web space if the latter happens. This can also be costly to the advertiser if the visitor only clicks and does not make a real purchase. (Adjuggler 2014, 9.)

6 A study of YouTube and Performance of Online Videos

YouTube is a very popular video sharing website which began by creating a user channel for gathering user video uploads into a single location. In most social networking sites, users are required to create a profile but in YouTube, a user channel is created, which hosts the user's video as well as personal data. YouTube in order to add more value and improve user experience introduced and keeps introducing new features. One of the earliest features introduced was subscriptions, which permitted a user to watch video(s) of other users. The interested user only had to subscribe to other users user channel in order to watch their videos. The subscription feature also allowed users to invite others to their channels.

Currently, you don't even have to be a member of YouTube to use it. Users can quickly upload and watch videos at their own convenience at any time with the search feature. A video can be watched using full screen mode or normal mode. (Biel 2009.)

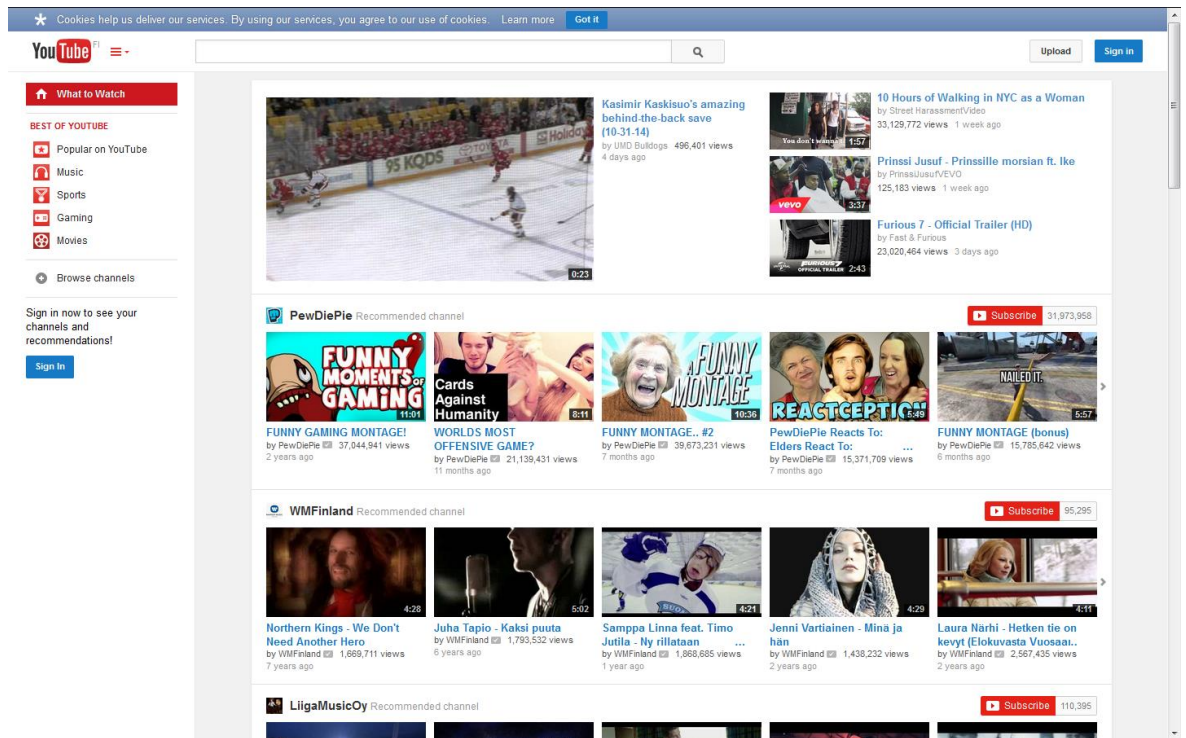


Figure 5: Overview of YouTube (YouTube 2014).

6.1 Why YouTube became successful

The success and popularity of YouTube is due to some reasons. Some of the secrets identified are as discussed.

6.1.1 Streaming media format

Firstly, the videos available on YouTube are in streaming media formats unlike others which use the conventional video file format. In conventional video formats, the media will be fully downloaded onto the user's device, before it can be viewed. But with the streaming media format, the video is sent in a continuous stream so that it is viewed as it arrives. The viewer therefore, does not have to waste lots of time in waiting for the video to finish downloading fully before playing it. (Darren 2007a.)

6.1.2 Flash videos

Secondly, YouTube uses flash videos. Flash video works well with most computers and devices unlike all the other formats which require different codecs before they can

be played. For most sites, a particular codec such as MPEG, QuickTime, Windows Media Video, x264 codec, etc., is required to be downloaded before their videos can be played. This is very frustrating for most users and YouTube saved users from this with the flash videos. Just a click on a video on YouTube is enough to play a video. Though the flash video has a disadvantage of bad quality yet most viewers disregard that. (Darren 2007b.)

6.1.3 Embedding properties

Finally, the videos on YouTube contain codes which can be copied and pasted in order to embed it to another webpage or presentation. This video embedding feature is very useful to bloggers, business managers and others who may need to insert a video into a project. Web developers who do not have enough bandwidth to host their videos just embed YouTube videos on their webpages. (Darren 2007c.)

6.2 Current state of online videos

Several researches have been done about the state of online videos. A current research shows that there is a significant rise in the numbers which watch videos online. Young adults and adults in America have increased the time they use in watching videos online. The research further revealed that this rise is mostly due to the use of mobile devices. The use of mobile devices in this sense has seen about 81% increment. (Digi-day 2014.)

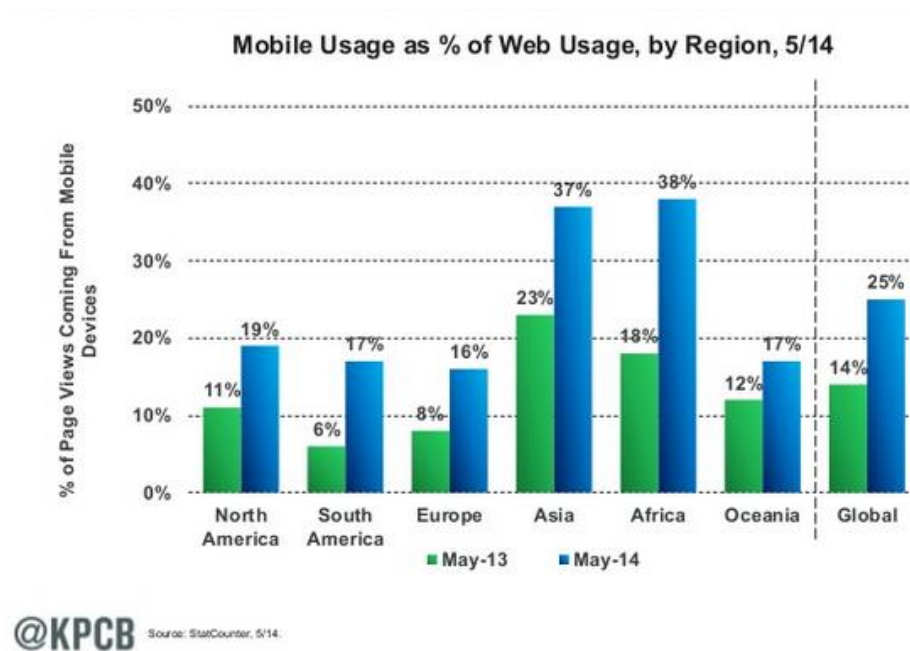


Figure 6: Mobile usage May 2013 – May 2014. (Digiday 2014.)

Over the past four years, the percentage of adults who patronise online videos, either watching or downloading, has risen from 69% to 78%. These adults are involved in at least one of these activities online:

- Video sharing websites are where these people watch their videos.
- Use social networking websites or mobile devices to watch videos online.
- After watching videos online, they download the videos onto their computers or phones so they can watch again.

People under 50 years and those with higher education have had high numbers in online video viewership. The research shows that:

- 95% of adults between 18 and 29 watch online videos and 87% for people within ages 30-49. The number reduces to 58% for adults above 50 years.
- About 84% of college graduates watch videos online and/or download them while 71% of non-college graduates patronise online videos.
- For households with incomes above \$75000, 87% of them patronise online videos. 74% of medium income earning households patronise online videos and 75% of low income earning households also patronise online videos.

| All | | \$75,000 or more (a) | \$30,000- \$74,999 (b) | Under \$30,000 (c) |
|------------|--|----------------------------|------------------------------|--------------------------|
| 56% | Watch videos online, including on a social network site or using mobile apps | 66% ^{bc} | 52% | 54% |
| 72% | Watch videos on a video-sharing site like YouTube or Vimeo | 82% ^b | 66% | 72% |
| 36% | Download video files onto a computer or cell phone to play them at any time | 41% ^b | 33% | 39% |
| 78% | Total who watch or download online videos | 87%^{bc} | 74% | 76% |

Figure 7: The percentage of online video usage with reference to household incomes (Pew Research Center 2013).

| All | | College grad (a) | Some college (b) | No college (c) |
|------------|--|------------------------|------------------------|----------------------|
| 72% | Watch videos on a video-sharing site like YouTube or Vimeo | 75% | 75% | 67% |
| 56% | Watch videos online, including on a social network site or using mobile apps | 61% ^c | 62% ^c | 44% |
| 36% | Download video files onto a computer or cell phone to play them at any time | 42% ^c | 40% ^c | 25% |
| 78% | Total who watch or download online videos | 83%^c | 80% | 71% |

Figure 8: The percentage of online video usage with reference to educational background (Pew Research Center 2013).

| All | | 18-29 (a) | 30-49 (b) | 50+ (c) |
|------------|--|-------------------------|------------------------|------------|
| 72% | Watch videos on a video-sharing site like YouTube or Vimeo | 92% ^{bc} | 81% ^c | 50% |
| 56% | Watch videos online, including on a social network site or using mobile apps | 76% ^{bc} | 64% ^c | 34% |
| 36% | Download video files onto a computer or cell phone to play them at any time | 44% ^c | 45% ^c | 22% |
| 78% | Total who watch or download online videos | 95%^{bc} | 87%^c | 58% |

Figure 9: The percentage of online video usage with reference to age (Pew Research Center 2013).

6.2.1 The effect of video sharing websites

Research has shown that the rise in watching, downloading and sharing of online videos is greatly due to the advent of video sharing websites like YouTube and Vimeo. The percentage of adults who use video sharing websites has risen since 2006 from 33% to 72%.

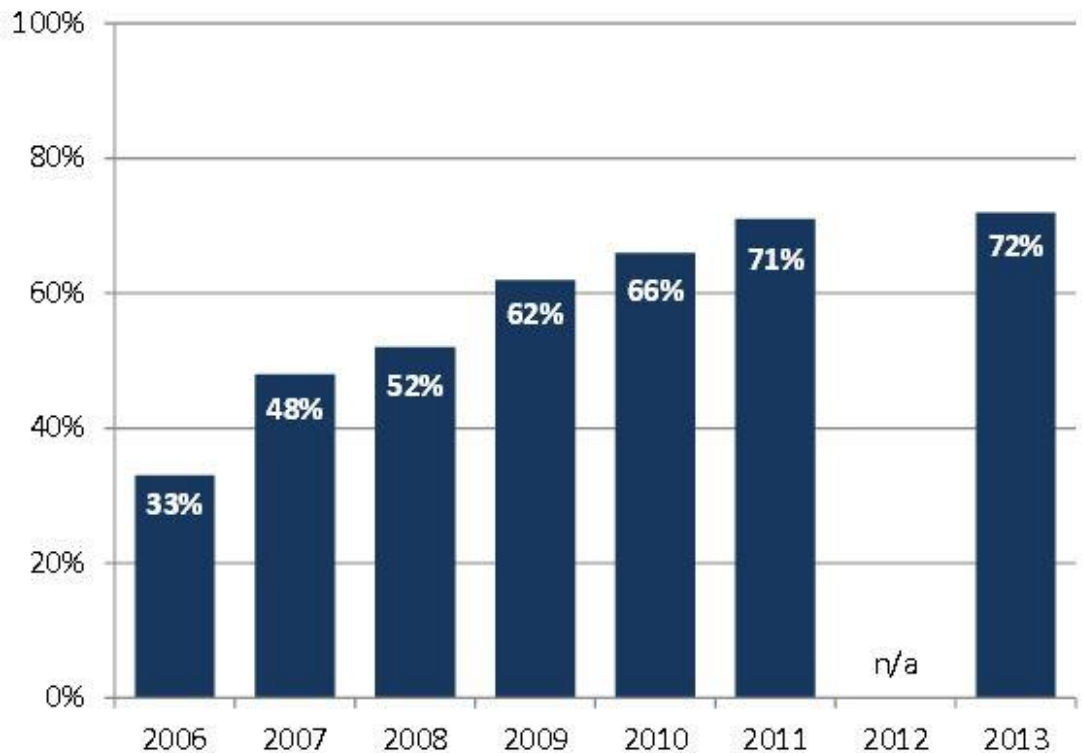


Figure 10: Percentage of adults patronising Video sharing websites 2006-2013 (Pew Research Center 2013).

It is also interesting to realise that people have been watching particular kinds of online videos from 2007 - 2013. These are:

- Funny videos, about 31% - 58% of adults
- Sports videos, about 14% - 27% of adults
- Educational videos, about 22% - 50% of adults

- Political videos, about 15% - 27% of adults

The current trends show that the numbers in the statistics above have doubled and entertainment and educational videos are the most watched. The picture below shows the values as at 2013.

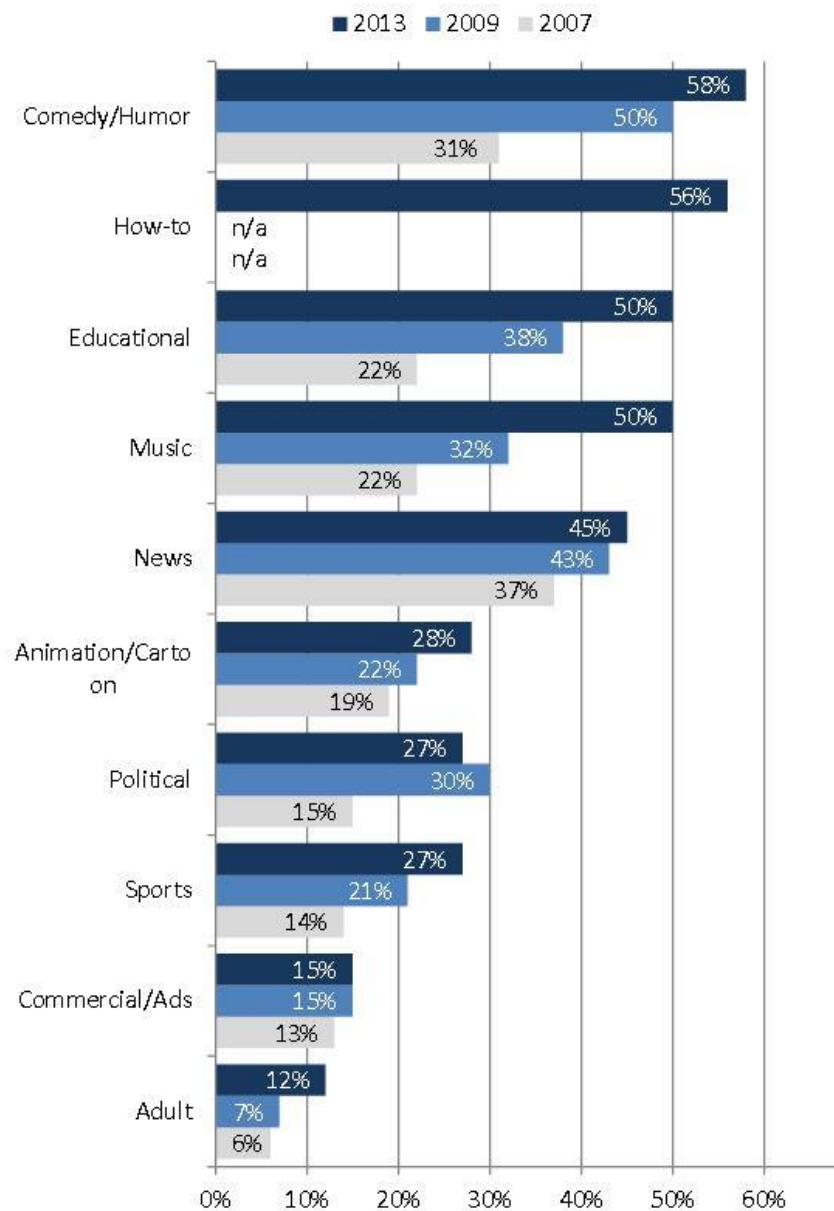


Figure 11: Percentage of adults who watch different types of videos (Pew Research Center 2013).

The statistics above show that there is a huge number of people who are interested in watching and uploading online videos especially among young ones. Furthermore, the studies revealed that there have been a rise in watching educational videos.

7 NMG product life cycle

Product life cycle describes the various stages a product goes through from its initial idea and introduction to the market through the period during which it will die out of the market. The length of life cycle of different products vary due to the type of product.

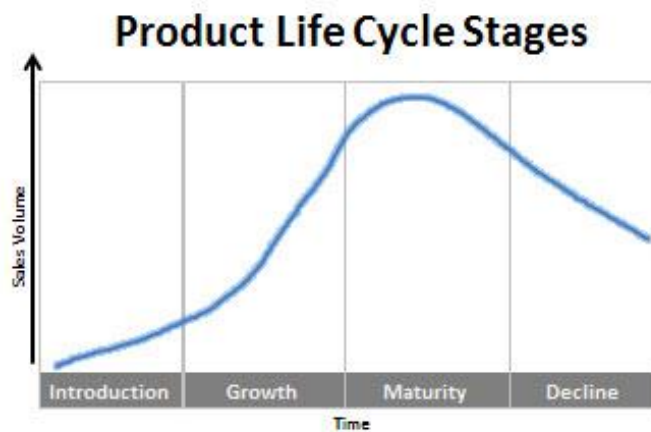


Figure 12: Product Life Cycle stages (Product Life Cycle Stages 2014.)

There are generally four stages; introduction, growth, maturity and decline. (Product 2014a.) These are discussed below:

7.1 Introduction

The first stage of the product life cycle is the introduction stage. This is when the company launches the product after all research and development is complete. It is important to note that this stage may require very huge financial investment. Therefore marketing team needs to develop a strategy which will help make some returns on the product and also improve chances of the product's success. (Product 2014b.)

7.1.1 Challenges

Low market: Obviously there is little or no market for the product at this stage because it is new. This implies that there will be low sales initially unless with special cases where there has been strong marketing already.

High costs: Huge sums of finances have gone into research and development even before the product is produced. Also, promotions and marketing at this initial stage to create awareness of the product involves huge finances and these costs can be very high for the company.

Low profits: With reference to the costs and investments explained earlier, it can be said that NMG may record no or minimal profits initially. Depending on the product and available market, the company may recover within shorter periods of time. (Product 2014b.)

7.1.2 Benefits:

Limited or no competition: Since the product being introduced is indeed a new product or concept, then it will definitely be first on the market and will have no direct competition. This comes with the advantage that the NMG can capture a large share of the market before other similar products are launched by other companies in future. Hopefully, even the brand's name can shelter the whole range of products as in the case of Hoover, Walkman, etc. (Product 2014b.)

7.2 Growth

This is the second stage in the product life cycle. This stage should be very essential to NMG because right after introducing the product, key steps should be taken for the product to gain grounds in the market, increase sales based on the adopted revenue model and increase profits. This can be ensured by implementing strategies and packages to maintain good customer relationships and also meet their demands. (Product 2014c.)

7.2.1 Challenges

Competition: At the introduction stage, there was no competition because the product was entirely new to the market. However, as the game gains grounds, attracts more users and increases in demand at the growth stage, other companies may get introduce similar products and make efforts to claim a share of the market.

Change in marketing strategy: During the introduction stage, the product benefits directly from the hype which accompanies the launch. But in the growth stage, new and more intense marketing strategy is required in order to cause to cause the much needed growth. (Product 2014c.)

7.2.2 Benefits:

Reduction in costs: This stage can be very profitable because the company has already invested a lot during the introduction stage. As more users patronise the game, more revenue will be generated and there would probably be more marketing routes for the product during this stage.

Greater user awareness: Many internet users will become aware of NMG at this stage, the market size will increase, more users will be recorded and this will reflect on the revenue generation.

Increased profits: A rise in profit is obvious because there is less cost and increase in patronage. Company will be able make up for the huge losses incurred in the introduction stage. (Product 2014c.)

7.3 Maturity

A product get to this third stage after going through the first two stages. This stage is generally challenging to most manufacturers. In the introduction and growth stages, NMG will focus firstly on establishing the product within the market and secondly, on growing user base and revenue. In the maturity stage, sales are expected to reach peak levels and the focus will be to maintain the acquired market amidst the challenges around. (Product 2014d.)

7.3.1 Challenges

Peak sales volume: At this stage, most users with interest in playing NMG will already be on the platform, the market receives fewer new users and the market gets saturated.

Market share decreases: There is great competition at this stage as several companies will be in competition for a market share. The intensity of the competition could become challenging to NMG maintaining its customers.

Decrease in profits: The customer base at this stage mostly reduces as other competitors also attract some of them. The profits will then be fairly shared among competitors. (Product 2014d.)

7.3.2 Benefits

Cost reduction: By the time we reach the maturity stage, there would have been efficient ways of marketing the product and improving services and this helps in reducing expenditure and costs.

Growth in market share: The market share of NMG can be grown through differentiation if more attractive features are added to the product. (Product 2014d.)

7.4 Decline

The final in the product life cycle is the decline stage. That's the stage where the product comes to an end and phases out. Sales fall and profits reduce due to tough competition. This stage is also very challenging yet there are still opportunities which come with it. (Product 2014e.)

7.4.1 Challenges

Decline in market: At this point, the market will begin to decline as most customers may get attracted to other products and eventually stop patronizing the product. Sadly most manufacturers are not able to rescue this situation.

Profits and sales reduce: Sales and profits will reduce obviously due to the decline in market.

Withdrawal of product: Finally, when we get to the point where the product does not bring in any profit again, the only choice will be to withdraw it from the market. (Product 2014e.)

7.4.2 Benefits:

Production cost reduces: Though the product will soon be dying out, there may still be opportunities to continue making some profits for a little while by applying different techniques, varying marketing strategies and any other which may exist. (Product 2014e.)

8 Proposed revenue model

Among the various models discussed, I believe the concept of NMG will work well with freemium model. To enrich the model, selling of virtual goods or advertising model can be paired with freemium.

8.1 Freemium model

As described earlier, freemium model offers a core aspect for free and charges a fee on premium. The intention is that the free aspect will help build a strong user base and when these users have acquainted with the free service, they discover the value of the premium layer and make payments to be upgraded unto it. This model currently is generating great revenue however creating a game and releasing an aspect of it for free does not guarantee that it will succeed on the game market. Freemium model should be carefully planned a proposed process is as described.

8.1.1 Create a core product

A core product in the freemium model is one which will be released for free to its users. This product should be simple, interesting, and adaptable so it meets customer needs. In most cases, users do not even know what they want but the product should be developed such that it solves problems which users do not even know they have.

When this is done, the customers who initially use the core product will get attracted to it, they will build enough trust and will be willing to stay with the product for a long time. It is a section of these faithful users who will in future pay for the premium features. The core product should be a great one. It should not be a tuned-down of the full version rather, it should be like a full version, with great features which will give users a great experience.

Developers should have this model in mind at the initial development process and develop a full product for this purpose. The core product is intended to generate a huge user base. As users engage with the core product, they should feel the need to convert to paid users. (Lodahl & Kjaehr 2014, 13.)

8.1.2 Make a decision on the free version and don't change it

This decision should likewise be made at the initial development process. The part of the product which is released for free should remain free with all of its features. No part or feature of the version should be removed later after its introduction as it will result to betrayal on the part of the customer.

Some organizations which engaged in this practice paid dearly for it when customers protested profusely against that action. Letterboxd, for instance, had to re-introduce the feature they removed due to the customer protests. Therefore it is important to be very certain on what will be issued as free and should be kept as such. (Lodahl & Kjaehr 2014, 13.)

8.1.3 Consider the use cases

The use case takes into consideration issues such as how free users can easily migrate into becoming paid users, the kind of platform to be used, how many players can play, etc. In video games, the choice of platform is very important as it affects the use case. For example, games on a mobile platform will have a different use case from that of a console game.

The chosen platform should make playing the game very easy and make download very fast and small. Developers should know that since users pay no money and that there are no commitments, most customers are not very patient with it. Therefore, all efforts should be made to keep these users and convert them into paying.

Another point to consider with the choice of platform is the method of payments. For the freemium model, mobile platforms have proved to be optimal. Most mobile platform users are already used to making online payments, some are also used to paying for applications. (Lodahl & Kjaehr 2014, 14.)

8.1.4 Trust your users and your game

Users are the reason for the existence of any business and in this model, they should not only be seen as an income source but also a huge base from which knowledge on improving the product can be obtained. Involving users in development and updating process, helps to preserve their trust and makes them feel a part of the project. This is also a way of encouraging the users to migrate into paying users because by engaging them, you get to know their needs and by implementing them, gives the users enough reason to make this important migration.

The product itself should be the best on the market and worth any penny paid for it. To make the model more effective, new features can constantly be added over time and already paid customers can still pay more for those as well. However it must be said too many of these introductions can annoy users. Therefore, proper planning should go into pay-more upgrades. (Lodahl & Kjaehr 2014, 15.)

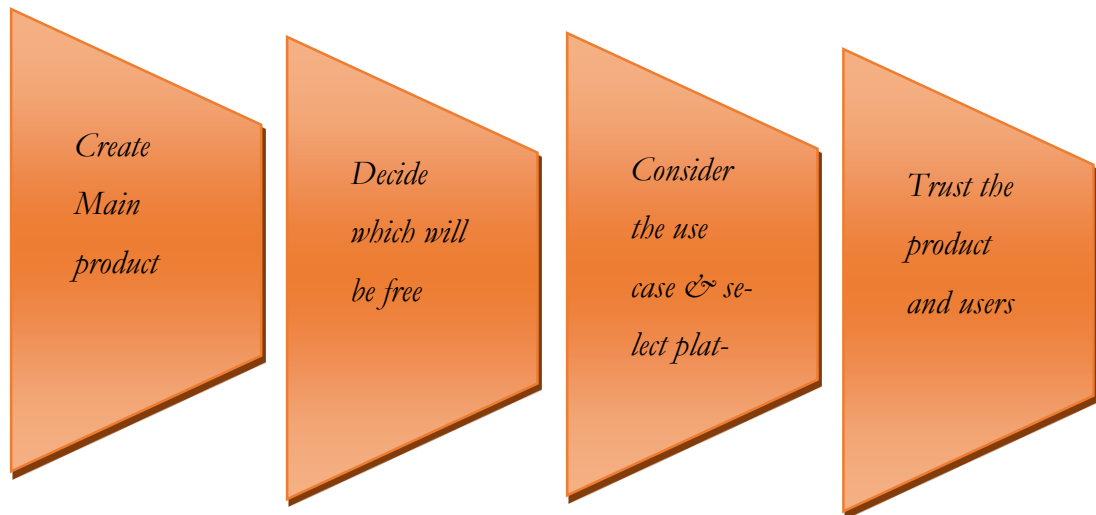


Figure 13: Main steps in Freemium model.

8.1.5 Making freemium richer

Undoubtedly the video gaming industry and its business models have gone through several transformations and is now very established. Most gamers of today do not want to commit to a long term subscription rather they prefer paying for additional contents which may be offered. In respect of this, a good revenue generating model will be one which permits consumers to have flexible ways of spending without them even realising. (Lodahl & Kjaehr 2014, 17.)

One of the ways of achieving this is introducing the sales of virtual goods. Combining this with the freemium model ensures that the game itself is released for free yet users will have access to purchasing virtual goods. This also enables the company to make profits from the free users. Research in Netherlands showed that about 20% of online gamers regularly pay for their games while 15% do so in Germany. It is worth to know that it's difficult to retain customers for a long time therefore, gaming companies must keep the balance of making profit and gaming pleasure. The sales and marketing aspect introduced should not override the pleasure the game offers nor benefits users expect to get from playing the game.

There are different virtual goods; functional, decorative and communicational goods. Most games which sell virtual goods are free from adverts. In order to make the most out of virtual sales, the prices of virtual goods are normally kept inexpensive and affordable to most consumers. Virtual goods may be paid for using virtual money, real money or barter system. The additional content which needs to be paid for could be incorporated into the game carefully so it adds value, gamers will be willing to make some payments while enjoying the pleasure of the game. (Pwc 2013, 4-5.)

Another option is to pair freemium model with advertising model. Similar to the model discussed above, the core product is given for free yet advertising spaces are provided. The adverts may only be associated with the free version and removed from the paid version. There are different kinds of adverts which may be run;

- Text ads: these are mobile advertising messages or texts which. They may be static or clickable.
- Graphical banners: These are mobile images which contain advertising messages. They may be static, clickable, interactive or animated.
- Graphical banners with text: These are images with also have texts and may have properties as already discussed above.
- Video: Short advertising videos may also be used.

A careful consideration should be made for mobile users as they have limited displays. Pairing freemium with adverts also ensures that revenue is generated even from the free users. Again, it is important to keep the balance and not flood the platform with adverts as they may annoy some users. (Lodahl & Kjaehr 2014, 17.)

8.1.6 Financial Analysis

Revenue generation in freemium model is determined by three main streams, Monthly Active Users (MAU), Conversion Rate (CR) and Average Revenue Per Paying User (ARPPU). MAU represents the stable user base. It usually refers users who uniquely have played the game within a month. As this model hopes that part of these users convert from free to paid users, it's important to keep track of them. Conversion rate

represents the rate at which users convert from free to pay users. Normally this will be a decimal value. Every pay user is expected to pay some amount of money. This amount is represented by ARPPU.

When these three are put into an equation, it becomes;

$$\text{MAU} * \text{CR} * \text{ARPPU} = \text{MONTHLY REVENUE}$$

For high revenue generation, each of these factors should be performing well. A rise in just one of them with decreases in the others will result in low revenues. An example is as shown below:

$$40000 \text{ MAU} * 0.15 \text{ CR} * 20\$ \text{ ARPPU} = \$120,000$$

$$5000 \text{ MAU} * 0.20 \text{ CR} * 20\$ \text{ ARPPU} = \$20,000$$

$$5000 \text{ MAU} * 0.15 \text{ CR} * 40\$ \text{ ARPPU} = \$30,000$$

Each of these factors is important. The aim will be to ensure that there is always enough active users within the month, convert as many as possible into pay customers and then have each make high amount of payments. To achieve this, all of the factors already discussed in this paper about freemium should be critically considered. (Lodahl & Kjaehr 2014, 12.)

8.2 Crowdfunding

Another business model option for start-ups which include NMG is crowdfunding.

Crowdfunding according to Investopedia (2014) is;

“The use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of friends, family and colleagues through social media websites like Facebook, Twitter and LinkedIn to get the word out about a new business and attract investors. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.”

In simple terms, crowdfunding is a model which permits several people to make contributions of small amounts in support of a project. These financial contributions are generally in return for a reward. In recent years, crowdfunding has seen a tremendous rise as shown by the figure below, perhaps due to the use of social media in building large communities.

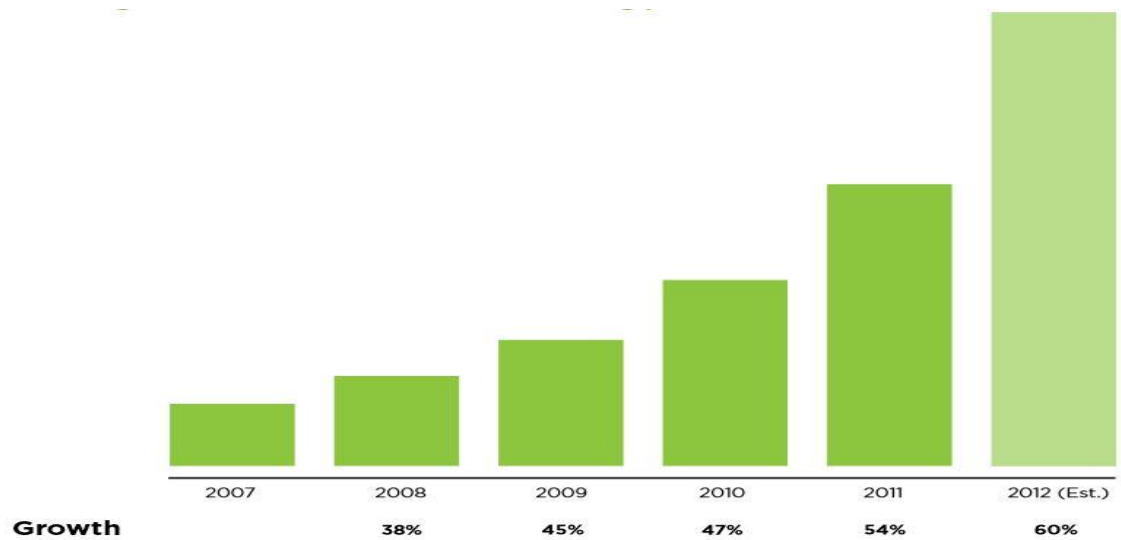


Figure 14: Annual growth in number of crowdfunding platforms (Crowdsourcing 2013).

There are three main players in crowdfunding. These are entrepreneurs, donors or funders and the platform.

8.2.1 Entrepreneurs

In crowdfunding, an entrepreneur is anyone who has an idea, a product or a project, who need support which may be financial or not, in order to produce or commercialize it. Entrepreneurs have several reasons for choosing this model; the cost of seeking funding through this model is very low, guidance and other non-financial supports such as consulting could be received. Finally, the entrepreneur could guess or have an idea how the product or project will perform on the real market though this community. (Gulati 2014.)

8.2.2 Funders

Funders or investors are donors, maybe philanthropist or people who offer support to get a project started after showing belief in the value it proposes. Most people fund projects for diverse reasons and motivations. For some, this might be an opportunity to contribute to the development of their communities and making a significant change in this world or maybe they want to enjoy the pleasure of being a part of a big thing. Others may also see a business opportunity in the project and therefore will want to join it. (Gulati 2014.)

8.2.3 Crowdfunding platforms

Platforms are virtual communities which connects potential project funders to entrepreneurs. According to research there hundreds operating platforms and some common ones are kickstarter, inidegogo, rockethub, fundrazr, sponsume, 33Needs, Ulele, Spot.us etc. Crowdfunding platform act as intermediaries online and connects entrepreneurs who needs funds to individuals who need to invest their funds. Entrepreneurs looking for funds to support their projects state how much they need and the purpose for which they need the funds by pitching on these platforms. Also, entrepreneurs outline the returns on would get by investing into the project. The pitches can be viewed by potential funders. Funders interested in the project may interact with the entrepreneur and/or with other funders in order to raise the estimated amount for the project. (Wicks 2013.)

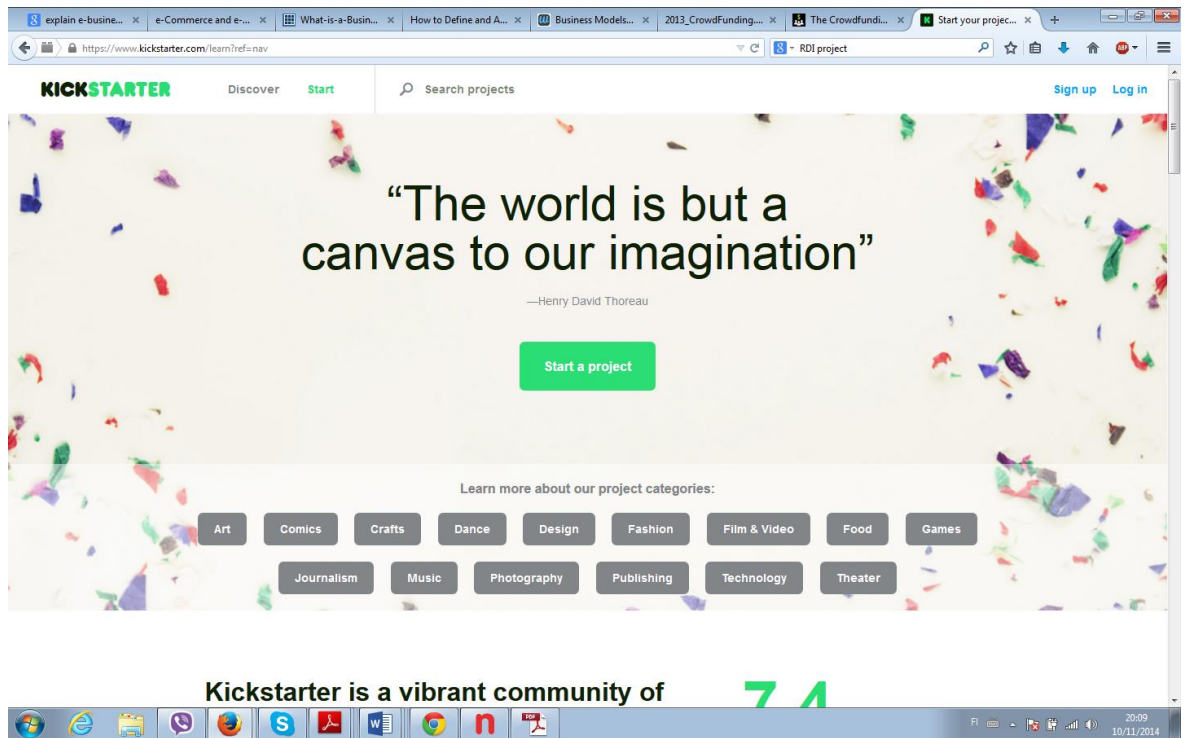


Figure 15: Overview of Kickstarter (Kickstarter 2014).

9 References

Adjugger 2014, 3-11. Guide to Online Advertising.

URL: http://www.adjugger.com/docs/AdJuggler_guidetoonlineadv.pdf

Accessed: 15 August 2014.

Business Model 2013. Business model background paper for <IR>.

URL: http://www.theiirc.org/wp-content/uploads/2013/03/Business_Model.pdf

Accessed: 01 September 2014.

Bekkelund K.J. 2011. Succeeding with Freemium

URL: <http://kimjoar.net/files/succeeding-with-freemium.pdf>

Accessed: 25 July 2014.

Biel J. 2009. Please, subscribe to me! Analysing the structure and dynamics of the YouTube network.

URL: <https://www.idiap.ch/~jibiel/pubs/Biel09YouTubeSubscr.pdf>

Accessed: 26 August 2014.

Darren C. 2007a-c. Internet – Other. How YouTube works the technical aspects.

URL: <http://www.insidetechnology360.com/index.php/how-youtube-works-the-technical-aspects-35219/>. Accessed: 25 August 2014.

Franchise 2014a. Small Business Articles. Basics – What is A Franchise?

URL: http://www.franchise.com/franchise-news/Basic_What_Is_Franchise.cfm

Accessed: 20 July 2014.

Froberg P 2014. What is freemium?

URL: <http://www.freemium.org/what-is-freemium-2/>. Assessed: 22 July 2014.

Gulati S. 2014. Special Report. TD Economics. Crowdfunding: A kick starter for startups

URL: <http://www.td.com/document/PDF/economics/special/Crowdfunding.pdf>

Accessed: 03 November 2014.

Griffin 2013. Chron. Small Business. What is a portal Business Model.

URL: <http://smallbusiness.chron.com/portal-business-model-3869.html>

Accessed: 04 August 2014.

Gloersen I, Ip P. 2007. Business models in Online Communities – a case study.

URL: <http://robertoigarza.files.wordpress.com/2008/10/cas-business-models-in-online-communities-a-case-study-glc3b8ersen-et-alt-2007.pdf>

Accessed: 15 August 2014.

Ho P.T. 2003. Development of the KHU Campus Portal. What is Portal? URL:

<https://www.its.hku.hk/news/ccnews100/portal.htm>. Accessed: 03 August 2014.

Investopedia 2014. Crowdfunding. Definition of crowdfunding.

URL: <http://www.investopedia.com/terms/c/crowdfunding.asp>.

Accessed: 10 October 2014.

Kickstarter 2014. Kickstarter. URL: <https://www.kickstarter.com/learn?ref=nav>

Accessed: 02 November 2014.

Leimeister M.J, Kremer H. 2004. Revisiting the Virtual Community Business Model

URL:[http://www.winfbase.de/lehrstuhl%5Cpublikat.nsf/intern01/354F0886AC19F9F1C1256EF5002872BE/\\$FILE/04-12.pdf](http://www.winfbase.de/lehrstuhl%5Cpublikat.nsf/intern01/354F0886AC19F9F1C1256EF5002872BE/$FILE/04-12.pdf). Accessed: 17 August 2014.

Lodahl M. & Kjaehr E. 2014. The business of making games. Pp 12-17.

Mahadevan B 2000. Models for Internet-Based E-Commerce: An anatomy. California management review. Vol 42, no.4 pp 64-66.

Nikov A. 2012. Social Networks, Auctions and Portals

URL: <http://www2.sta.uwi.edu/~anikov/INFO3435/lectures/12-EC-social%20networks-auctions-portals.pdf>. Accessed: 03 August 2014.

Noren E. 2013. Digital Business Models. The Subscription Business Model.

URL: <http://www.digitalbusinessmodelguru.com/>. Accessed: 10 August 2014.

Osterwalder et al. 2005. Communications of the association for information systems. Vol 15, p 5.

Osterwalder A & Pigneur Y. 2010, 14, 21, 31. Business Model Generation.

Pew Research Center 2013, 6-9. Online Video 2013.

URL: http://www.pewinternet.org/files/old-media/Files/Reports/2013/PIP_Online%20Video%202013.pdf

Accessed: 11 November 2014.

Product 2014a. Product Life Cycle Stages. Product life cycle stages explained

URL: <http://productlifecyclestages.com/>. Accessed: 02 September 2014.

Product 2014b. Product Life Cycle Stages. Product life cycle stages explained

URL: <http://productlifecyclestages.com/product-life-cycle-stages/introduction/>

Accessed: 02 September 2014.

Product 2014c. Product Life Cycle Stages. Product life cycle stages explained

URL: <http://productlifecyclestages.com/product-life-cycle-stages/growth/>

Accessed: 02 September 2014.

Product 2014d. Product Life Cycle Stages. Product life cycle stages explained

URL: <http://productlifecyclestages.com/product-life-cycle-stages/maturity/>

Accessed: 02 September 2014.

Product 2014e. Product Life Cycle Stages. Product life cycle stages explained

URL: <http://productlifecyclestages.com/product-life-cycle-stages/decline/>

Accessed: 02 September 2014.

Pwc 2013, 4-5. The Media Trend Outlook series. Gaming in the Netherlands, Virtual goods in video games: A business model with prospects

URL: http://www.pwc.nl/nl_NL/nl/assets/documents/pwc-gaming-in-the-netherlands.pdf. Accessed: 15 September 2014.

Pwc 2014. At \$11.6 Billion in Q1 2014, Internet Advertising Revenues Hit All-Time First Quarter High.

URL: http://www.iab.net/about_the_iab/recent_press_releases/press_release_archive/press_release/pr-061214. Accessed: 13 November 2014.

Pearson 2011, 728,732,752,760, 766-768. Pearson Education. Auctions, Portals and Communities. URL: <http://wps.aw.com/wps/media/objects/4736/4850251/lau-don13.pdf>. Accessed: 8 July 2014.

Pinker J.E. 2003a. Managing Online Auctions: Current Business and Research Issues

URL: <http://www.simon.rochester.edu/fac/pinker/papers/managingonlineauctions.pdf>. Accessed: 15 July 2014.

Rajput M. 2014. Social Media: The world is getting shrinked

URL: <http://www.trigma.com/blog/social-media.html>. Accessed: 205 July, 2014.

Ridings C.S. & Gefen D. 2004. Virtual Community Attraction: What People Hang Out Online. URL: http://www.ee.oulu.fi/~vassilis/courses/socialweb10F/reading_material/2/Virtual%20Community%20Attraction_Why%20People%20Hang%20Out%20Online.pdf. Accessed: 17 July, 2014.

Rytis 2011. What is Freemium and why it is the future

URL: <http://2founders.com/2011/12/19/freemium/>. Accessed: 22 July 2014.

Tchai T. 2011. Australian Journal of Business and Management Research. Online advertising development and their economic effectiveness. Vol 6, pp121-133

WiseGeek 2014. What is an Affiliate Model? URL: <http://www.wisegeek.com/what-is-an-affiliate-model.htm> Accessed: 16 July 2014.

Wicks M. 2013, 12. Crowdfunding. An Introduction. URL: http://www.smallbusinesssuccess.ca/ebooks/prince_albert/pdfs/2013_CrowdFunding.pdf. Accessed: 02 November 2014.

WhatIs 2014. WhatIs.com. Definition Portal

URL: <http://whatis.techtarget.com/definition/portal>

Accessed: 12 August 2014.

Winkler R. 2014. Atlantic Web Fitters. What is a Web Portal? URL: <http://www.atlanticwebfitters.ca/AboutCMS/WhatisaWebPortal/tabid/95/Default.aspx>. Accessed: 6 July 2014.

Zorayda, R.A. 2003. E-Commerce and e-Business

URL: <https://www.uop.edu.jo/download/research/members/eprimer-ecom.pdf>

Accessed: 01 September 2014.